(3)

No. 06-03

In The

Supreme Court of the United States

PAYLESS SHOESOURCE, INC.,

Petitioner,

v.

ADIDAS AMERICA, INC. and ADIDAS-SALOMON AG,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITIONER'S REPLY BRIEF

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PETITIONER'S REPLY BRIEF

Adidas's Brief in Opposition is largely an exercise in avoidance and misdirection. It spills considerable ink addressing the merits of the contract defense, an issue not presented by the Petition (and not properly reached by the panel if it lacked jurisdiction). Br. in Opp. ("Opp.") 1-4, 6-8, 15. It also advances a baseless argument for judicial estoppel and rewrites the questions presented to something they are not. When Adidas finally turns to the rampant conflicts and confusion in the lower courts we so carefully documented (*see* Pet. 10-20), it again either practices a calculated avoidance or tries to change the subject by pointing to judicial agreement on the general two-step framework of analysis under Rule 54(b) – a framework within which the conflicts we identified operate. And when it comes to the substance of the decision below, Adidas offers not one word in defense of either the bifurcated approach to Rule 54(b) issues adopted by the Ninth Circuit in *Wood v. GCC Bend, LLC*, 422 F.3d 873 (2005), and applied here, or the panel's discredited "avoid two trials" justification. Instead, Adidas rests its defense on the panel's statement that the disposition of the adjudicated counts "revolve[d] around a single issue" – even though that rationale has been rejected by other circuits and destroys the distinction between Rule 54(b) and 28 U.S.C. § 1292(b). Review by this Court is needed to correct the Ninth Circuit's flawed approach and bring greater uniformity to this important area of federal law.

I. The Issues Presented Are Properly Before this Court, and Are Appropriate for its Decision.

A. Without supporting authority, Adidas claims that Payless "is judicially estopped to assert" the lack of appellate jurisdiction based on its earlier arguments. Opp. 13. That contention is wrong for multiple reasons.

To begin with, Payless's prior position cannot be controlling: the propriety of the Rule 54(b) certification is a

non-waivable jurisdictional question, which can be raised here irrespective of the parties' positions below. *Clinton v. City of New York*, 524 U.S. 417, 428 (1998); *Lewis v. Casey*, 518 U.S. 343, 349 n.1 (1996). For that reason, courts of appeals have repeatedly considered the propriety of Rule 54(b) judgments *sua sponte*. *See, e.g., Lowery v. Federal Express Corp.*, 426 F.3d 817, 820 (6th Cir. 2005); *Oklahoma Turnpike Auth. v. Bruner*, 259 F.3d 1236, 1241 (10th Cir. 2001).

Second, Adidas's argument ignores the intervening change in the governing legal regime effected by *Wood*. This post-merits-briefing decision – which the panel raised *sua sponte* at argument – explains the timing of Payless's assertion of the jurisdictional defect (not only its Supplemental Brief, but also in a Rehearing Petition).

Third, the court of appeals actually decided the jurisdictional issue, over Judge Kleinfeld's dissent. This Court's settled "practice permits review of an issue not pressed so long as it has been passed upon. . . ." *Lebron v. National R.R. Passenger Corp.*, 513 U.S. 374, 379 (1995) (internal quotations omitted). Here, the issue was *both* raised *and* decided below. *See United States v. Williams*, 504 U.S. 36, 41-45 (1992).[1]

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[1] Adidas's judicial estoppel argument also rests on a distortion of Payless's position below. Payless's statement that interpretation of the 1994 settlement "is factually independent of the remaining claims," Opp. 3, was made *before* Payless asserted a counterclaim for breach of contract, and in the course of (unsuccessfully) seeking certification of *both* the trademark infringement *and* trade dress claims, which Payless has consistently argued are factually and legally intertwined. *See* Pet. 5, 6.

At oral argument, Payless's counsel acknowledged that "the question of whether the shoe is a confusing copy," including "the stripes as part of the trade dress," was "going to go to the jury" on Adidas's unadjudicated trade dress claim. Tr. at 20, 21. While counsel argued that the trade dress claim raised an *additional* functionality issue, and that "there is not the kind of intertwining of facts" at issue in *Wood*, Tr. 21, Payless did *not* "assert[ ] that the trademark and trade dress claims

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B. Adidas also claims this Court is incapable of providing meaningful guidance on the issues presented. According to Adidas, "this Court can[not] [] anticipate and set rules for all possible applications of Rule 54(b)," but should instead permit lower courts to apply "a pragmatic, practical view," based on their individualized assessment of the equities of particular cases. Opp. 14.

This argument is doubly mistaken. For one thing, it depends on Adidas's rewriting and avoidance of the questions Payless actually presents. Opp. i. Contrary to Adidas's suggestion, the Petition carefully targets specific issues of law that are central to Rule 54(b)'s proper operation, and which this Court is eminently qualified to resolve: whether *Wood's* bifurcated framework (which hinges on whether a case is deemed "routine") has any support in the text of Rule 54(b) and is workable in practice; how courts are to understand Rule 54(b)'s textual directive to compare adjudicated and unadjudicated "claims for relief"; when are different counts so factually and legally unrelated that they are "distinctly separate" and hence certifiable; and whether certain considerations cited by the panel majority are legally erroneous. Adidas's suggestion that the Petition challenges matters of pure discretion is simply wrong.

Beyond that, this Court cannot simply set the lower courts adrift – nor has it done so in prior cases. *See, e.g., Curtiss-Wright Corp. v. General Electric Co.*, 446 U.S. 1, 9 (1980) (holding that mere presence of nonfrivolous counterclaim does not defeat certification). Application of Rule 54(b) implicates a bedrock issue of appellate jurisdiction for this Court to decide: whether appellate jurisdiction will remain subject to the "ancient policy" "prohibit[ing]

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involved two *different* sets of shoes," or that the claims "could *not* thus result in duplicate recoveries." Opp. 5 (emphasis original). To the contrary, Payless explicitly argued that "[t]here simply is no basis in the record on appeal to quantify how many, *if any*, shoes affected by the ruling under review are not also subject to trade *dress* claims which remain to be tried." Supp. Br. 3 (first emphasis added).

piecemeal disposal of litigation" and deferring review until the entry of a final judgment on all claims, except "in the infrequent harsh case" where certification is justified. Fed. R. Civ. P. 54(b) adv. comm. note (1946). As Justices Frankfurter and Harlan correctly noted over 50 years ago, this Court cannot commit such fundamental matters concerning Rule 54(b)'s operation "without guidance to the individualized notions about finality of some two hundred and fifty district judges"; such abdication "is not flexibility but anarchy." *Sears Roebuck & Co. v. Mackey*, 351 U.S. 427, 444 (1956) (concurring opinion).

The issues raised in the Petition are not mere "nuances," Opp. 15, but reflect fundamental disagreements. This is illustrated most dramatically by the Ninth Circuit, which has adopted a virtually limitless reading of the Rule. Thus, the Ninth Circuit has held that:

- "[i]n reality, issuance of a Rule 54(b) order is a fairly routine act that is reversed only in the rarest of instances" (*James v. Price Stern Sloan, Inc.*, 283 F.3d 1064, 1068 n.6 (9th Cir. 2002)), whereas other circuits have ruled that Rule 54(b) entries are "generally disfavored," and "not to be made routinely";[2]
- certification is appropriate even though the adjudicated and remaining claims "require proof of the same facts" (*Texaco, Inc. v. Ponsoldt*, 939 F.2d 794, 798 (9th Cir. 1991)) while other circuits have ruled that claims are "truly separate" and therefore certifiable only if they have "minimal factual overlap" (*Lottie v. West Am. Ins. Co.*, 408 F.3d 935, 939 (7th Cir. 2005));
- certification is appropriate (at least in "complex" cases) if an appeal presents "an important or

[2] *Oklahoma Turnpike Auth. v. Bruner*, 259 F.3d 1236, 1241 (10th Cir. 2001); *Thermal Science, Inc. v. U.S. Nuclear Reg. Comm'n*, 184 F.3d 803, 806 n.5 (8th Cir. 1999).

controlling legal issue that cuts across * * * a number of claims" (*Wood*, 422 F.3d at 881), while other circuits have ruled that certification is inappropriate where an appealed issue is also relevant to unadjudicated claims;[3]

- certification is appropriate even though "subsequent trial proceedings might obviate the need for an appeal,"[4] while other circuits have vacated certifications where "the need to review the issues currently appealed may be mooted by future developments in the district court";[5] and
- the paramount consideration is whether "an interlocutory appeal * * * will aid in the efficient resolution of the action,"[6] whereas other circuits have rejected certification based "solely on the ground that [] an appeal may advance proceedings in the district court." *Harriscom Svenska AB v. Harris Corp.*, 947 F.2d 627, 631 (2d Cir. 1991).

See also Pet. 10-20.

Following *Wood*, of course, this lenient approach applies only where a case is not "routine" (whatever that

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[3] *Lowery v. Federal Express Corp.*, 426 F.3d 817, 823 (6th Cir. 2005); *Oklahoma Turnpike Auth. v. Bruner*, 259 F.3d 1236, 1243 (10th Cir. 2001); *Justice v. Pendleton Place Apts.*, 40 F.3d 139, 141-42 (6th Cir. 1994) (fact that appellate decision "may provide guidance" on remaining claims "actually militates against appellate review").

[4] *Cadillac Fairview/Cal., Inc. v. United States*, 41 F.3d 562, 564 n.1 (9th Cir. 1994); *Continental Airlines, Inc. v. Goodyear Tire & Rubber Co.*, 819 F.2d 1519, 1525 (9th Cir. 1987).

[5] *Gerardi v. Pelullo*, 16 F.3d 1363, 1372 (3d Cir. 1994); *see also, e.g., Factory Mut. Ins. Co. v. Bobst Group USA, Inc.*, 392 F.3d 922, 924 (7th Cir. 2004).

[6] *Noel v. Hall*, 341 F.3d 1148, 1154 n.2 (9th Cir. 2003); *Texaco, Inc. v. Ponsoldt*, 939 F.2d 794, 798 (9th Cir. 1991) (upholding certification despite admittedly overlapping facts).

means); in "routine" cases, the more stringent approach of then-Judge Kennedy's opinion in *Morrison-Knudsen Co. v. Archer*, 655 F.2d 962 (9th Cir. 1981), applies. Even if Adidas were correct that Rule 54(b) issues should be left to the unfettered discretion of district judges, the *Wood* framework is at least half wrong as it applies to "routine" cases – which provides all the more reason to grant review.

II. The Circuit Conflicts Over the Proper Application of Rule 54(b) Warrant this Court's Review.

A. As we have previously demonstrated (Pet. 10-20), the circuits are badly divided over numerous, fundamental questions concerning the proper scope and application of Rule 54(b). These disagreements include whether the Rule should be applied broadly or narrowly, Pet. 10-13, and a host of more specific issues. *See* Pet. 13-17, and page 3, *supra*.

Without making any serious attempt to address these significant conflicts, Adidas offers three responses. First, it suggests (Opp. 11) that the decision below is consistent with or "analogous" to *Ty, Inc. v. Publications Int'l Inc.*, 292 F.3d 512 (7th Cir. 2002). Even if that were true, which it is not,[7] it is hardly an answer to the pervasive conflicts we have demonstrated.

Second, Adidas anemically observes that every circuit has recited the "time tested [two-step] formula" articulated in *Curtiss-Wright Corp. v. General Electric Co.*, 446 U.S. 1 (1980). But that argument simply misses the point. The Petition did not argue that courts have departed from *Curtiss-Wright*'s two-part test; instead, the circuits have radically diverged in their application of that test – *i.e.*, what factors the lower courts may consider, and which

[7] Because *Ty* involved an injunction immediately appealable under 28 U.S.C. § 1292(a)(1), *see* 292 F.3d at 516, the court's brief discussion of Rule 54(b) was *dictum*.

they regard as legally irrelevant, in deciding both steps of this jurisdictional inquiry.

Third, Adidas says there is no conflict because the certified claims were resolved based on an affirmative defense, not the merits. But it is precisely that "issue-specific" mode of analysis that we say is mistaken, and in conflict both with Rule 54(b)'s text and with decisions of other circuits. *See* Pet. 17-19, 27-28, and page 8, *infra*.

B. Our Petition also showed that, without support in the Rule's text or this Court's decisions, the Ninth Circuit in *Wood* recently adopted a novel – and completely unworkable – bifurcated approach to Rule 54(b) determinations. Under this approach, which the panel applied here, dispositive orders in "routine" cases are rarely certifiable, while district courts are given virtually boundless discretion to authorize piecemeal appeals in cases deemed sufficiently "complex." Pet. 25-26. Adidas does not dispute that *Wood* has adopted this schizophrenic approach, nor attempt to defend it. The conflict between *Wood* and the approach taken by every other circuit thus also stands unrebutted – and independently warrants review.

III. The Issues Presented Are Important And Recurring.

This Court acknowledged the "importance of the issue" of Rule 54(b)'s meaning in *Mackey* (Pet. 22), and prominent lower court judges – including, for example, Judge Richard Posner – have bemoaned the lack of guidance from this Court and underscored the significance of Rule 54(b)'s meaning for the workload of the appellate courts. *See* Pet. 21-22, 25.

In response, Adidas says that we have quoted one treatise out of context and overstated the recurring nature of these issues. Opp. 14-15. The short answer is that the phenomenon of burgeoning federal appellate caseloads is undeniably real, and the observations of respected federal appellate judges are not so easily dismissed. The volume of

cases raising Rule 54(b) issues – published and unpublished – is very large indeed.[8] This Court has a special responsibility to address issues like these, which affect the workload and relationship of the federal trial and appellate courts.

IV. The Ninth Circuit's Decision is Wrong.

We showed in the Petition (at 25-30), that the Ninth Circuit's decision was flawed in multiple respects. Adidas's response rests on a single premise: that the Rule 54(b) certification adjudicated only a "narrow issue" of contract interpretation, but did not "*substantively* adjudicate[]" *either* Adidas's trademark infringement or trade dress claims. Opp. 8; *see also id.* at 2, 11 (claiming district court adjudicated "contract claims"). With respect to the trademark infringement and trade dress claims themselves, Adidas begrudgingly acknowledges – as did the panel majority – that the facts *do* overlap "*substantively* between the two claims," "[s]ince the 'Superstar' *trade dress* incorporates the Three-Stripe *trademark* as one of its four components." Opp. 8 (emphasis original).

Adidas ignores what many other circuits have recognized: the text of Rule 54(b) permits certification only of "claims for relief," *not* "dispositive issues" or "affirmative defenses." Those courts have specifically rejected a myopic focus on the "dispositive issue" on appeal, and have instead held that a certification decision must assess the degree of factual overlap between the "claims for relief" that were adjudicated, and those that remain. Pet. 17-19. Controlling *issues* can be certified only under the very different procedures of 28 U.S.C. § 1292(b). *See* Pet. 27-28.[9]

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[8] A Westlaw search revealed 636 court of appeals decisions, and 928 district court decisions, discussing the Rule since January 1, 2000, alone.

[9] Adidas's "issue-specific" defense of the majority's ruling is puzzling even on its own terms, since Adidas admits that interpretation

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Next, Adidas argues that the decision below was simply a straightforward application of *Curtiss-Wright* (a decision neither the panel majority nor the dissenter even cited). Opp. 10. But *Curtiss-Wright* did not adopt a particular analysis for determining whether "claims for relief" are "distinctly separate," and did not independently assess the separateness of the claims before it, *see* 446 U.S. at 9; it therefore cannot "control" this case.

Finally, and unsurprisingly, Adidas quotes the "findings" it drafted, which the district court adopted wholesale. Opp. 9. Yet as we explained (Pet. 29-30 & n.17), those "findings" contradicted the court's own earlier ruling, and were not relied upon by the court of appeals.[10] Further, those "findings" are plainly inaccurate or irrelevant: as previously explained (Pet. 26-27) there was every prospect the court of appeals would have to address contract issues again in a later appeal; rulings on Adidas's trade dress claims, or Payless's trademark-abandonment counterclaim, could well have mooted the need for an appellate resolution; and the "two trials" and "facilitate settlement" rationales cannot alone support entry of a Rule 54(b) judgment.

Under a proper analysis, entry of an appealable partial judgment was plainly improper here: Adidas's trademark and trade dress claims sought the same relief,

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of the 1994 agreement relates *not only* to its trademark infringement claims, but also to its trade *dress* claims, and to Payless's contract counterclaim (both of which remained unresolved). *See* Opp. 12 (arguing that "the very heart" of Payless's contractual defense to the *trade dress* claim "was before the Ninth Circuit"); *id.* (acknowledging that Payless's contract counterclaim involved "the implied 'reciprocal obligation' issue that was before the Ninth Circuit").

[10] Although Adidas claims that the earlier certification ruling arose in different circumstances, Opp. 9-10 n.3, the *nature* of Adidas's claims, and of Payless's contract defense, remained the same; indeed, the grounds for certification were *weaker* at the later date, given Payless's assertion of trademark abandonment and contract counterclaims in the interim. *See* Pet. 6.

and there was no basis to find that the claims implicated different Payless shoes; Payless's contract defense applied equally to both sets of claims, and contract interpretation was also central to Payless's contract counterclaim; and Payless's other counterclaim, seeking invalidation of Adidas's trademark, could have mooted the trademark infringement claims altogether. *See* Pet. 26-27.

CONCLUSION

For the reasons set forth above and in the petition for a writ of certiorari, the petition should be granted.

Respectfully submitted,

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